

**Okmulgee County Rural Water District No. 4
Morris, Oklahoma**

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

DECEMBER 31, 2022

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
BOARD OF DIRECTORS
DECEMBER 31, 2022

BOARD OF DIRECTORS

Chairman

Steve Finch

Vice-Chairman

Kenneth Flanary

Treasurer

Rick Sturman

Members

Bud Pilch
Bill Dancer
Dennis Nunley

MANAGER

Michael Wallace

BOOKKEEPER

Niki Leist

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
DECEMBER 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Okmulgee County Rural Water District No. 4
Morris, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Okmulgee County Rural Water District No. 4, Morris, Oklahoma (the District), as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022 and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The prior year “memorandum only” comparative information and the supplementary information on page 26 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2023 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 14, 2023

RURAL WATER DISTRICT NO. 4, OKMULGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2022

Our discussion and analysis of the Rural Water District No. 4, Okmulgee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2022. Please read it in conjunction with the District's financial statements that begin on page 14.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$68,494. Overall, the District's cash and cash equivalents decreased by \$311,335 in the current fiscal year.
- The District approved a new water rate schedule in November 2021, effective December 1, 2021 due to City of Okmulgee increasing their rates. Another rate increase has been approved for 2023 due to increased costs.
- The District built a new pump house in 2022 with grant proceeds from OWRB. They also laid 1 mile of 6" line, which was paid for with District funds.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District’s net position and the changes in them. You can think of the District’s net position – the difference between assets and liabilities – as one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District’s water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Net Position, and Changes in Net Position

The District’s Net Position was higher in 2022 increasing from \$1,017,270 to \$1,373,077. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District’s business-type activities.

Table 1 – Net Position:

	<u>2022</u>	<u>2021</u>	<u>Variances</u>
Current and other assets	\$ 438,653	743,174	(304,521)
Capital assets, net	1,477,091	858,708	618,383
Total Assets	<u>\$ 1,915,744</u>	<u>1,601,882</u>	<u>313,862</u>
Current liabilities	\$ 56,558	75,264	18,706
Long-term liabilities	486,109	509,348	23,239
Total Liabilities	<u>\$ 542,667</u>	<u>584,612</u>	<u>41,945</u>
Invest. In capital assets, net of related debt	\$ 967,743	309,857	657,886
Restricted	47,017	64,366	(17,349)
Unrestricted	358,317	643,047	(284,730)
Total Net Position	<u>\$ 1,373,077</u>	<u>1,017,270</u>	<u>355,807</u>

Net Position of the District increased by 34.5 percent (\$1,373,077 compared to \$1,017,270). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$643,047 to \$358,317. These large variances are due to the grant proceeds and capital projects completed in 2022.

Table 2 – Changes in Net Position:

	<u>2022</u>	<u>2021</u>	<u>Variances</u>
Revenues:			
Charges for services	\$ 783,831	716,268	67,563
Grant proceeds	295,000	-	295,000
Interest	1,478	531	947
Total Revenues	<u>1,080,309</u>	<u>716,799</u>	<u>363,510</u>
Expenses:			
Salaries, taxes and benefits	154,943	166,133	11,190
Water purchases	281,429	193,551	(87,878)
Maintenance and repairs	98,656	60,537	(38,119)
Other expenses	97,409	85,761	(11,648)
Depreciation	68,600	54,022	(14,578)
Interest on debt	23,465	26,512	3,047
Total Expenses	<u>724,502</u>	<u>586,516</u>	<u>(137,986)</u>
Changes in Net Position	355,807	130,283	225,524
Net Position, Beginning	<u>1,017,280</u>	<u>886,987</u>	<u>130,293</u>
Net Position, Ending	<u>\$ 1,373,087</u>	<u>1,017,270</u>	<u>355,817</u>

The District's total revenues increased by 50.7 percent (\$363,510). The total cost of all services increased by 23.5 percent (\$137,986).

Capital Assets

At December 31, 2022 the District had \$1,477,091 invested in capital assets, net of depreciation, including land, the water system, vehicles and equipment. In 2022, the District completed the pumphouse and laid one mile of 6" lines.

Long-Term Debt

The District is indebted to the Office of Rural Development on a note obtained for previously extensive extensions and payment of other debts. The outstanding principal balance owed on the note decreased from \$531,566 to \$509,348 during the 2022 fiscal year. The \$846,000 note, at 4.50% interest, is scheduled to be paid off in 2038. The District also approved a capital lease agreement in 2015 to finance the \$185,000 radio read meter project. This lease was paid off in 2022.

Economic Factors and Next Year's Budget and Rates

The District has absorbed some of the City of Okmulgee's rate increases, but may be forced to further increase our customer rates if additional increases are made by the City.

The District's budget for fiscal year 2023 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 125, Morris, OK 74445 or call (918) 733-2441.



BLEDSON, HEWETT & GULLEKSON
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Okmulgee County Rural Water District No. 4
Morris, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the Okmulgee County Rural Water District No. 4 (the District) Morris, Oklahoma, as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify three certain deficiencies in the internal controls, described in the accompanying schedule of audit results as items 22-1, 22-2 and 22-3, which were considered material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, and is included in the accompanying schedule of audit results as item 22-3.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

March 14, 2022

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Disposition of Prior Year's Significant Deficiencies
December 31, 2022

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year, and will continue to be an exception due to the size of the District.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Schedule of Audit Results
December 31, 2022

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed three significant deficiencies in the internal controls, items 22-1, 22-2 and 22-3, which were considered material weaknesses.
3. The audit disclosed one instance of noncompliance, item 22-3, that was material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

22-1 – Lack of Segregation of Duties

Condition: The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria: An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause: The District is not large enough to justify the hiring of additional personnel.

Effect: There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation: The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response: Additional personnel will be hired when the actual funds are available.

22-2 – Financial Reconciliations

Condition: During our audit, we were unable to obtain a proper classification of monthly expenses. We used the bank statements to classify the checks and debits into the proper expense category.

Criteria: A good system of internal control and sound accounting practices require that bank statements be reconciled to the accounting records in a timely manner, and as required by Oklahoma Statutes. In addition, all transactions must be properly classified. A proper monthly report that classifies all revenue and expenses should be completed monthly and approved by the board at the monthly meeting.

Cause / Effect: The District did not have procedures in place to adequately review and reconcile revenues and expenditures. Failure to reconcile the bank statements to the accounting records in a timely manner increases the risk of error, fraud, and inaccurate financial information, which will not be detected in a timely manner.

Recommendation: We recommend that procedures be implemented that would require the bank statements be reconciled monthly and that an individual that is independent of the process review the reconciliations for accuracy and completeness.

Response: The District is attempting to obtain proper training on accounting software.

22-3 – Payroll/IRS Obligations

Condition: The District has not filed an IRS Form 941 quarterly report since September 2021. Further, timely payments to the IRS and the Oklahoma Tax Commission were not made on a consistent basis during the 2022 fiscal year.

As of the date of this audit report, the District is not aware of the amount due to the IRS and the State of Oklahoma, but it is assumed that penalties and interest will be assessed against the District for these late submissions and the failure to file the 941 forms.

Criteria: Internal Revenue Service *Publication 15 Employers Tax Guide (Circular E)*, establishes rules to determine what type of depositor an entity is and when tax withholding deposits are due. In addition, year-end forms should be submitted to the IRS by January 31 following the year covered. The Oklahoma Tax Commission also requires all employers to withhold and remit Oklahoma income tax payments, as determined by the *Income Withholding Tax Law of Oklahoma*.

Cause / Effect: The District did not have any internal controls over the payroll function, and therefore, by not paying the withholding taxes or submitting the quarterly 941 forms in a timely manner, the District will be subjected to penalty assessments and interest.

Recommendation: We recommend the District implement procedures where an individual independent of the payroll function review the monthly payroll registers and reconciliations, and/or submits the applicable withholdings to the Internal Revenue Service through the *Electronic Funds Transfer Payment System* as required, and reconcile the monthly withholdings to ensure that withholding are being paid in timely manner. Further, we recommend that the District contact a tax consultant to get these past items properly filed.

Response: The District is attempting to obtain proper training on payroll procedures.

Okmulgee County Rural Water District No. 4

Morris, Oklahoma

Statement of Net Position

December 31, 2022

	<u>2022</u>	<u>-Memorandum- -Only- 2021</u>
<u>ASSETS</u>		
Current assets:		
Cash accounts	\$ 299,230	\$ 458,077
Investments	22,048	157,187
Accounts receivable	70,230	56,785
Prepaid insurance	128	6,759
Total current assets	<u>391,636</u>	<u>678,808</u>
Restricted (temporarily) assets:		
Cash in bank - reserve acct	<u>47,017</u>	<u>64,366</u>
Capital Assets:		
Land	3,565	3,565
Water system	1,851,206	1,485,270
Buildings	516,120	195,073
Vehicles and equipment	267,142	267,142
Other capital assets	27,108	27,108
Total capital assets	<u>2,665,141</u>	<u>1,978,158</u>
Less: accumulated depreciation	<u>(1,188,050)</u>	<u>(1,119,450)</u>
Total capital assets (net)	<u>1,477,091</u>	<u>858,708</u>
TOTAL ASSETS	<u>\$ 1,915,744</u>	<u>\$ 1,601,882</u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 33,319	\$ 35,761
Current portion long-term debt	23,239	39,503
Total current liabilities	<u>56,558</u>	<u>75,264</u>
Long-term Debt:		
Notes payable-Rural Development	<u>486,109</u>	<u>509,348</u>
Total Liabilities	<u>542,667</u>	<u>584,612</u>
 <u>NET POSITION</u>		
Net investment in capital assets	967,743	309,857
Restricted for debt service	47,017	64,366
Unrestricted assets	358,317	643,047
Total Net Position	<u>1,373,077</u>	<u>1,017,270</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,915,744</u>	<u>\$ 1,601,882</u>

The accompanying notes to the financial statements are an integral part of this statement

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2022

	<u>2022</u>	<u>-Memorandum- -Only- 2021</u>
Operating Revenues:		
Water sales and other sales	\$ 744,793	\$ 681,856
Late fees	16,569	16,012
Reconnect fees	3,100	1,600
Transfer fees	2,319	1,600
Other sales and services	2,750	0
Total revenues	<u>769,531</u>	<u>701,068</u>
Operating Expenses:		
Water purchases	281,429	193,551
Salaries	113,104	135,049
Depreciation	68,600	54,022
Employee health insurance	20,590	17,339
Utilities and telephone	23,220	27,059
Professional services	15,835	17,512
Insurance	14,927	14,832
Repairs and maintenance	33,400	10,434
Office supplies and postage	13,575	10,583
Uniforms	1,250	1,590
Truck expense	16,814	9,833
Payroll taxes	16,535	12,295
Retirement	4,714	1,450
Materials and supplies	58,218	46,251
Water testing	5,788	3,852
Miscellaneous	5,716	3,897
Dues and fees	7,322	455
Total expenses from operations	<u>701,037</u>	<u>560,004</u>
Operating Income (Loss)	68,494	141,064
Non-Operating Revenues (Expenses):		
Interest income	1,478	531
Benefit units	14,300	15,200
OWRB grant proceeds	295,000	0
Interest paid on long-term debt	(23,465)	(26,512)
Total non-operating revenues (expenses)	<u>287,313</u>	<u>(10,781)</u>
Change in Net Position	355,807	130,283
Total Net Position, beginning of period	<u>1,017,270</u>	<u>886,987</u>
Total Net Position, end of period	<u>\$ 1,373,077</u>	<u>\$ 1,017,270</u>

The accompanying notes to the financial statements are an integral part of this statement

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Cash Flows
December 31, 2022

	2022	-Memorandum- -Only- 2021
Cash Flows from Operating Activities:		
Receipts from customers	\$ 756,086	\$ 705,530
Payments to employees	(113,104)	(133,439)
Payments to vendors	(515,144)	(366,391)
Net Cash Provided by Operating Activities	127,838	205,700
Cash Flows from Investing Activities:		
Interest revenue	1,478	531
Cash Flows from Capital and Related Financing Activities:		
OWRB grant proceeds	295,000	0
Sale (purchase) of capital assets	(686,982)	(27,500)
Contributions - benefit units	14,300	15,200
Interest expense on debt	(23,466)	(26,523)
Principal payments on debt	(39,503)	(49,534)
Total cash flows from capital and related financing activities	(440,651)	(88,357)
Net Increase (Decrease) in Cash	(311,335)	117,874
Cash and cash equivalents, beginning of period	679,630	561,756
Cash and cash equivalents, end of period	\$ 368,295	\$ 679,630
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 68,494	\$ 141,064
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	68,600	54,022
(Increase) decrease in accounts receivable	(13,445)	1,088
(Increase) decrease in prepaid insurance	6,631	10
Increase (decrease) in accounts payable	(2,442)	9,516
Net Cash Provided by Operating Activities	\$ 127,838	\$ 205,700

The accompanying notes to the financial statements are an integral part of this statement

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2022

Note A – Significant Accounting Policies

Organization

Okmulgee County Rural Water District No. 4 (the District) is an Oklahoma water district organized under Title 82 of Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, to provide water service to rural residents of Okmulgee County, Oklahoma. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The membership consists of approximately 820 members.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases water from the City of Okmulgee.

Basis of Accounting

The accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles. The District has also complied with GASB Statement No. 34 financial reporting requirements.

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At December 31, 2022 the District held deposits of approximately \$369,250 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2022

Note A – Significant Accounting Policies – cont'd

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2022

Note A – Significant Accounting Policies – cont'd

Fair Value of Financial Instruments – The District’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District’s estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

The District’s cash and investment accounts at December 31st, are detailed as follows:

	December 31,	
	2022	2021
<u>Morris State Bank-</u>		
Oper & Maint account	\$ 105,704	118,931
Savings account	22,048	85,334
Benefit Unit account	94,968	78,431
Depreciation account	34,231	66,663
Long Range Planning account	37,465	97,444
<u>First Family CU-</u>		
Reserve accounts	47,017	64,366
Pump House Building accounts	26,862	96,608
<u>Edward Jones-</u>		
Investment account	-	71,853
Total accounts	\$ 368,295	679,630

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year’s payment on the notes payable (\$45,684) at which time deposits in the reserve can be suspended. When necessary, these funds may be utilized with proper approval of the Rural Development. The reserve account funds have been deposited in an interest-bearing savings at First Family Credit Union, Henryetta, Oklahoma, which is insured by the federal government. At December 31, 2022 the temporarily restricted asset - cash reserve (Reserve account) was \$47,017.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2022

Note A – Significant Accounting Policies – cont'd

Inventories

Inventories consist primarily of materials and supplies for repairs and improvements of existing water lines, meters and all other capital assets. The amount of inventory is not considered material, and is not included on the financial statements.

Accounts Receivable

Billings for accounts receivable at December 31, 2022 were \$70,230. Allowance for doubtful accounts was not computed on this balance because uncollectible accounts do not have a material effect on the balance sheet.

Memorandum Totals

The “Memorandum Only” captions above the columns mean that amounts are presented for comparative and information purposes only.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions of enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Okmulgee County Rural Water District No. 4
 Morris, Oklahoma
 Notes to Financial Statements
 December 31, 2022

Note B – Capital Assets

Capital (fixed) assets are defined as any item with a cost in excess of \$1,000 and a useful life of two or more years. Capital assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Water System & Improvements	40-50 years
Equipment & tools	4 years
Vehicles	3 years
Office Equipment	5 years
Buildings	40 years
Furniture & fixtures	7 years

The capital asset information for the District is shown below:

	12/31/2021			12/31/2022
	<u>Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount</u>
Water System & Improv.	\$ 1,300,270	365,936	-	1,666,206
Radio Read Meters	185,000	-	-	185,000
Equipment & Tools	101,753	-	-	101,753
Vehicles	165,389	-	-	165,389
Office Equipment	19,081	-	-	19,081
Buildings & Grounds	198,638	321,047	-	519,685
Furniture & Fixtures	8,027	-	-	8,027
Total Capital Assets	1,978,158	686,983	-	2,665,141
Less: Accumulated Depreciation	<u>(1,119,450)</u>	<u>(68,600)</u>	<u>-</u>	<u>(1,188,050)</u>
Total	<u>\$ 858,708</u>	<u>618,383</u>	<u>-</u>	<u>1,477,091</u>

Okmulgee County Rural Water District No. 4
 Morris, Oklahoma
 Notes to Financial Statements
 December 31, 2022

Note C – Long-term Debt

The following is a summary of the long-term debt transactions of the District for the year ended December 31, 2022:

	Loans Payable	Capital Leases	Total
Balance, Jan. 1, 2022	\$ 531,566	17,285	548,851
Additions	-	-	-
Retirements	(22,218)	(17,285)	(39,503)
Balance, Dec. 31, 2022	\$ 509,348	-	509,348

Amount
Outstanding

Note 91-03, 4.5% mortgage payable to USDA; Office of Rural Development, required monthly installments of \$3,807. The loan is secured by a pledge of real estate and equipment

\$ 509,348

The annual debt service requirements for retirement of bond principal, capital lease principal and payment of interest are as follows:

Year Ending June 30	Principal	Interest	Total
2023	\$ 23,239	22,445	45,684
2024	24,306	21,378	45,684
2025	25,423	20,261	45,684
2026	26,591	19,093	45,684
2027	27,812	17,872	45,684
2028-32	159,443	68,977	228,420
2033-37	199,590	28,830	228,420
2038	22,944	307	23,251
Total	\$ 509,348	199,163	708,511

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2022

Note C – Long-term Debt – cont'd

In 2021 the District was approved for a \$300,000 loan with Oklahoma Water Resources Board (OWRB), ORF-21-0024-DW to construct a chloramines booster pump station. The District received \$295,000 of these proceeds in 2022, and the project was completed. The OWRB has forgiven the loan amount, so it is shown on the financial statements as a grant.

Note D – Insurance and Surety Bond Coverage

At December 31, 2022 the District had appropriate coverage against all major perils.

Note E – Accumulated Unpaid Vacation and Sick Pay

At December 31, 2022 no determination of the aggregate dollar value of vacation or sick pay had been made.

Note F – Employee Benefits

The Board approved a Simplified Employee Pension (SEP) plan for all full-time employees through Edward Jones Financial. In 2022 the District contributed \$4,714 to the SEP plan.

The District also offers employee health insurance for all full-time employees through Employees Group Insurance Division.

Note G – Subsequent Events

Management has evaluated subsequent events through March 14, 2023, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

OKMULGEE COUNTY RURAL DISTRICT NO. 4
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2022

Water Rates:

Rates effective December 1, 2021-

0 gallons	=	\$34.49 minimum bill
1 – 1,000 gallons	=	\$8.28 per 1,000 gallons
1,000 – 5,000 gallons	=	\$8.85 per 1,000 gallons
5,000 – 10,000 gallons	=	\$9.41 per 1,000 gallons
10,000 – 50,000 gallons	=	\$10.96 per 1,000 gallons
50,000 – 100,000 gallons	=	\$12.50 per 1,000 gallons
100,000 – 150,000 gallons	=	\$15.25 per 1,000 gallons
150,000 – 200,000 gallons	=	\$18.50 per 1,000 gallons
over 200,000 gallons	=	\$24.50 per 1,000 gallons

Rates effective December 1, 2023-

0 gallons	=	\$36.50 minimum bill
1 – 1,000 gallons	=	\$8.69 per 1,000 gallons
1,000 – 5,000 gallons	=	\$9.29 per 1,000 gallons
5,000 – 10,000 gallons	=	\$9.88 per 1,000 gallons
10,000 – 50,000 gallons	=	\$11.51 per 1,000 gallons
50,000 – 100,000 gallons	=	\$13.13 per 1,000 gallons
100,000 – 150,000 gallons	=	\$16.01 per 1,000 gallons
150,000 – 200,000 gallons	=	\$19.43 per 1,000 gallons
over 200,000 gallons	=	\$25.73 per 1,000 gallons

Customers:

The District had 816 customers at the close of the fiscal year.

Current membership/tap fee (residential) is \$1,100 per meter sign up.